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SUBJECT: IAEA Budget Kick-Off Reveals Old Fissures, New Rifts

REF: STATE 119320

11. (SBU) SUMMARY: The first meeting of the Budget Working Group was short and perfunctory, but elicited four telling statements from the G-77, EU, U.S., and Canada. Subsequent conversations also revealed much about the issues facing Member States as they aim for intense budget negotiations January 13 - 18. As in previous budget negotiations, the G-77 remains wedded to programmatic increases for Technical Cooperation. More positively, this time, the UK, France and Germany have this time failed to coalesce around zero growth. A U.S. proposal to establish an Advisory Group on Management Reform was received unenthusiastically by a Member State and Secretariat audience feeling acute "governance overload." Some of our friends have also pointed out privately that the U.S. call for continued regularization of Nuclear Security could lead to a quid pro quo situation with the G-77 over corresponding increases for Technical Cooperation. In developing more detailed budget guidance, Washington may wish to consider countering incipient "negotiation exhaustion" with a more explicit focus on funding capital investment (including the Safeguards Analytical Laboratory) in 2010. This would leave the hard push for programmatic priorities to be initiated simultaneously through the vehicle of the Medium Term Strategy, a product geared to wield considerable influence over the 2012-2013 budget biennium. END SUMMARY.

12. (SBU) Finnish Chair Ambassador Rasi used the first meeting of the Working Group on Financing the Agency (heretofore the "Budget Working Group" in Mission reporting) November 25 to outline her vision of the Working Group's mandate and time table. She formalized her notion that the Working Group would focus on the priorities within each Major Program and the 2011 budget during meetings scheduled for Jan. 13-18. The first two days of meetings (Jan. 13-14) would be dedicated to the IAEA's six Major Programs while the remaining two days (Jan. 15-18) would focus on thematic topics, including safeguards financing and the political discount to developing states (i.e., "shielding") and incentive schemes for on-time payment of assessments. The informal meeting of the Program and Budget Committee (PBC) to present the Secretariat's draft budget proposal would be postponed from February to early March. Following the informal PBC, Rasi would hold consultations on the level of the 2011 budget. On May 3rd the Working Group is scheduled to report to the annual formal PBC and on June 7 the Board of Governors could expect to approve the 2011 budget.

13. (SBU) In an attempt to minimize contention and stick to practicalities, Rasi held the first meeting of the Working Group late in the day and did little to encourage general discussion. The four statements presented were few in number but significant. The statement issued by Argentina on behalf of the G-77 was practically a carbon copy of G-77 statements issued during the previous round of budget negotiations. It emphasized "balance among the three pillars" (technical cooperation, safety, safeguards) and sufficient, assured, and predictable (SAP) resources for Technical Cooperation. The statement also noted that Major Programs 1, 2 and 6 (Energy,

Nuclear Applications, Management of Technical Cooperation) lacked sufficient funding from the regular budget. Finally, the statement noted that Nuclear Security, "though an important consideration, was NOT a statutory of the agency."

14. (SBU) The EU statement took a more thematic approach, emphasizing a strict prioritization of activities in the context of the 2011 budget. The EU also requested that the discussion bear in mind the need to improve accountability, effectiveness, and efficiency, and where possible, to avoid redundancy with the Medium Term Strategy process. To that end, the EU praised Rasi's proposal to focus discussions mainly on the framework of the 2011 budget as "realistic and pragmatic" (implying that the original mandate of the BWG was too far reaching).

15. (SBU) The U.S. statement, delivered by IO/GS Officer Jim DeTemple, emphasized the centrality of the Agency to the U.S. strategy on nonproliferation and established that we do not seek a zero growth approach. The U.S. reminded participants that the IAEA Board had instructed the Working Group to address both the 2011 budget level and the 2012-2013 biennium. The statement then went into detail on cost savings, prioritization of programs, and budget formulation. The statement also touched on two concepts laid out in Washington budget guidance: a Needs-based Assessment and an Advisory Group on Management Reform (REFTEL). (Note: Upon clarification to UNVIE by Washington that the Needs-based Assessment was an internal USG process, Mission subsequently contacted senior Secretariat officials to walk back the proposal. End note.)

16. (SBU) The final statement came extemporaneously from Canada. Taking a conservative tack, Canada touched on issues of fiscal constraint, the futility of revisiting shielding, and the senselessness of channeling further resources to the Technical Cooperation Fund as long as millions of Euros sat in the Fund unspent. (A Canadian diplomat later confessed privately that the impromptu statement had been intended to counterbalance the U.S. and G-77 statements).

17. (SBU) Private conversations in the days following the Working Group were as illustrative as the statements themselves. A Finnish diplomat on Rasi's staff was particularly frustrated by the U.S. call to delve into the 2012-2013 biennium, potentially disrupting the proceedings of the Medium Term Strategy. The Finn, among others, was confounded by the proposal for an Advisory Group on Management Reform, which they viewed as burdensome. Mission has heard little from the G-77, but a Romanian diplomat relayed the G-77's view of the Medium Term Strategy process as the place where the "real battle" would take place (we are pleased that Romania will chair the MTS process). DDG for Management David Waller likewise expressed concern to us that the proposed Advisory Group would level yet another burden on the Secretariat and Member States already overloaded with multiple, interlocking budget review mechanisms.

18. (SBU) By the time Rasi reconvenes the Working Group in January, the U.S. will have to determine whether to forge ahead with the proposed Advisory Group on Management Reform, despite DDG Waller's counsel against overloading the circuits. Comparable advisory groups on IAEA Major Program areas comprise up to twenty individual experts per group, appointed by the DG and serving in a personal capacity. If the proposed Advisory Group on Management Reform is intended to inform the 2012-2013 budget process, DG Amano would have to be persuaded quickly to establish it, and members must be prepared to work intensely. DG Amano's personal interest in management, labeling himself the Agency's "chief administrative officer," suggests we might hold the advisory group in reserve (perhaps another nine months) until we see the results of budget talks, initial MTS negotiations, and the new Director General's handling of management issues.

MAKE 2011 THE "YEAR OF CAPITAL INVESTMENT"

19. (SBU) COMMENT: This initial discussion of the 2011 budget revealed familiar divisions between the G-77's focus on technical cooperation and western preoccupation with fiscal restraint. Likely in consideration that their EU colleague from Finland was chairing an IAEA gathering for the first time and confident no substantive decisions were at stake, European budget hawks did not use this meeting to insist explicitly on zero growth. This demand will come,

driven by fiscal belt-tightening in most capitals and a broad belief among our like-minded states that the Agency persists in wasteful activities.

¶10. (SBU) As the U.S. inter-agency process moves ahead on detailed budget guidance, Mission recommends an emphasis on major capital investments and a few crucial programs over pursuing a broad agenda of programmatic priorities for 2011. In negotiating to 2010 Regular Budget increase, we and the Secretariat gave way most on the capital investment portion of the Regular Budget (including upgrades for the Safeguards Analytical Laboratory), and focused on programmatic increases for Nuclear Security. Rather than replaying the enervating game of chicken between Nuclear Security and Technical Cooperation, it might be wiser to make 2011 the "year of capital investment." (We remain attracted to the idea of a special assessment for this purpose.) Simultaneously, Mission will be deeply involved in the Medium Term Strategy process, which will set the stage for programmatic increases in safeguards, security and safety that can be operationalized in next year's negotiation of the 2012-2013 budget.

¶11. (SBU) Mission is committed to informing and responding to the inter-agency process as it unfolds, and is particularly grateful for Washington's timely guidance thus far. We look forward to greater elaboration of the U.S. position and invite IO/MPR's travel to Vienna to participate in the January negotiations. END COMMENT.

¶12. (SBU) Electronic copies of the Finnish Chair's budget timetable are available from Kristen Weaver (weaverke@state.gov).